

*In addition to the assessment criteria, use the paper-specific markscheme below. Award up to the maximum marks indicated.*

1. (a) Explain how barriers to entry may affect market structure. [10 marks]

Answers may include:

- explanation of term barriers to entry
- examples of barriers to entry, such as patents, economies of scale and ownership and control of raw materials
- explanation of term market structure
- identification of the different types of market structure, *i.e.* perfect competition, monopoly, monopolistic competition and oligopoly
- explanation that there are no barriers to entry in perfect competition
- linkages between no entry barriers and perfect competition and monopolistic competition
- explanation that entry barriers exist in the other market forms
- linkages between the existence of entry barriers in monopoly and oligopoly and market structure

- (b) Evaluate the view that monopoly is an undesirable type of market structure. [15 marks]

Answers may include:

- definition of monopoly
- at least one appropriate diagram
- comparisons between monopoly and perfect competition, *e.g.* price usually higher and output lower
- allocative and productive inefficiency
- failure by monopolist to produce at the socially optimum level of output
- lack of choice for consumers
- lack of innovation and higher unit costs because of absence of competition
- possibility of lower unit costs and prices owing to economies of scale
- long run dynamic efficiency in monopoly
- benefits of natural monopoly
- benefits to some consumers of monopolistic price discrimination
- potential competition and contestable markets

Examiners should be aware that candidates may take a different approach, which if appropriate, should be rewarded.

Effective evaluation may be to:

- consider short run versus long run consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments